

Role of the Citizen's Tax Preference Commission under EHB 1069



**Citizen Commission for
Performance Review of
Tax Preferences**

October 6, 2006

Main Provisions of EHB 1069

- Citizen's Commission establishes a schedule of tax preferences to be reviewed over ten years.
- Staff from the Joint Legislative Audit and Review Committee (JLARC) independently conduct the reviews.
- Commission adds comments to the JLARC report—but cannot modify it.
- Legislature holds hearings, may take action to continue, abolish or modify a preference.

Tax Commission Members

Richard S. Davis

Vice President of Communications, Association of Washington Business

Charles Hasse

President, Washington Education Association

Ross Hunter (*non-voting member*)

State Representative, 48th Legislative District

Lily Kahng, *Commission Vice Chair*

Associate Professor of Law, Seattle University

Carolyn Logue

Washington State Director, National Federation of Independent Business

William A. Longbrake, *Commission Chair*

Vice Chair, Washington Mutual, Inc.

Brian Sonntag (*non-voting member*)

State Auditor

2

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October 6, 2006

What is a State Tax Preference?

- EHB 1069 Definition Includes:
 - Exemptions, exclusions or deductions from the base of a tax
 - Credits against a tax
 - Deferrals of a tax
 - Preferential tax rates
- There are currently over 500 tax preferences enacted in state law.

3

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October 6, 2006

JLARC Reviews Must Include 12 Elements

- 1) Classes of individuals, organizations, or industries directly affected
- 2) Public policy objectives that may justify the preference
- 3) Evidence the preference contributed to the public policy objectives
- 4) Extent to which continuing the preference might contribute to the public policy objectives
- 5) Unintended benefits of the preference to those not intended by the Legislature

4

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October 6, 2006

JLARC Reviews Must Include 12 Elements

- 6) Extent to which terminating the preference will negatively impact the taxpayers who currently benefit, and extent to which resulting higher taxes may negatively impact employment and the economy
- 7) Feasibility to modify or recapture the preference if the intended public policy objectives are not fulfilled
- 8) Fiscal impacts of the tax preference, including past and future impacts on the overall state economy, effects on personal and business consumption and expenditures

5

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October 6, 2006

JLARC Reviews Must Include 12 Elements

- 9) Impact that terminating the preference would have on the distribution of liability for payment of state taxes
- 10) Consideration of similar preferences in other states and whether benefits may be gained by adopting similar provisions for Washington
- 11) Recommendations to continue, modify, schedule for future review, or terminate the preference
- 12) Recommendations for future accountability standards for future reviews

6

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October 6, 2006

Expedited Reviews: An Alternative Process

- Commission may recommend an expedited review process.
- Applies to any tax preference that has an estimated biennial impact of \$10 million or less.

7

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Tax Preferences Exempt from Review

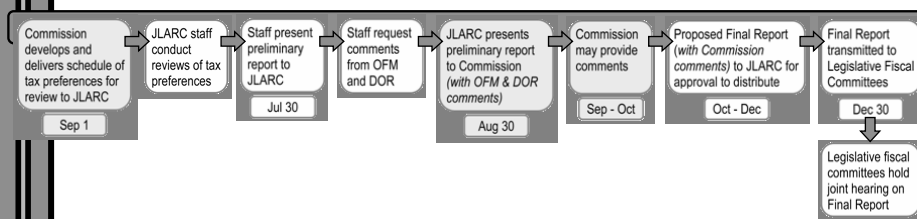
- a) Tax preferences required by Constitutional law
- b) Sales and use tax exemption for machinery and equipment for manufacturing, research and development, or testing
- c) Small business B&O credit
- d) Sales and use tax exemption for food and prescription drugs
- e) Property tax relief for retirees
- f) Property tax valuations based on current use
- g) Any preference the commission determines is "a critical part of the structure of the tax system"

8

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October 6, 2006

Tax Preference Review Process



Yellow shading indicates Commission function.

JLARC – Joint Legislative Audit & Review Committee

DOR – Department of Revenue

OFM – Office of Financial Management

Legislative Fiscal Committees – House Finance Committee, Senate Ways & Means Committee

9

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October 6, 2006

JLARC: Who We Are & What We Do

- The Joint Legislative Audit & Review Committee (JLARC) is a joint (bicameral), bi-partisan committee of 16 legislators.
- JLARC has been conducting performance audits, program evaluations, sunset reviews, and other studies for the Legislature since 1973.
 - Prior to 1996, JLARC was known as LBC (Legislative Budget Committee)

10

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October 6, 2006

JLARC Members

Senators

Brad Benson
Jeanne Kohl-Welles
Bob Oke
Linda Evans Parlette, Vice Chair
Debbie Regala
Phil Rockefeller, Asst. Secretary
Pat Thibaudeau
Joseph Zarelli

Representatives

Gary Alexander, Secretary
Glenn Anderson
Kathy Haigh
Janéa Holmquist
Ross Hunter, Chair
Fred Jarrett
Kelli Linville
Deb Wallace

11

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October 6, 2006

JLARC Gets Assignments in 3 Ways

- Committee-initiated studies
- Policy legislation (such as EHB 1069)
- Provisos in budgets

12

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October 6, 2006

JLARC's Study Process

- Studies are objective and independent.
- Study findings are confidential until staff present preliminary report to JLARC.
- Agency then submits a written response to the report that is included in the proposed final report.
- Comments by JLARC members may only be added as a separate addendum.
- Comments by Commission will be added to final report.

13

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October 6, 2006

Next Steps for the Commission

Meeting #3, December 15, 2006:

- Commission discussion and public comment on potential preferences to be reviewed

Meeting #4, January 19, 2007:

- Commission adoption of preferences to be reviewed and review schedule

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